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ANNUAL
REPORT
1971



AUTOMOTIVE HARDWARE LIMITED

Directors and Officers

Irwin Goldhart, President

Frances A. Reid, B.A.Sc., Vice-President and Director

Goldie Potashin, Secretary-Treasurer and Director

Sidney Goldhart, Director

Ross M. Hanbury, Director

Harry L. Mendelson, Q.C., Director

Registrar, Transfer Agent and Trustee

National Trust Company, Limited

Montreal, Toronto, Winnipeg, Calgary and Vancouver

Listing

Toronto Stock Exchange

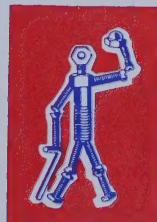
Head Office and Plant

55 Brown's Line, Toronto 14, Ontario

AR47

Interim Report to Shareholders

for six months ended June 30, 1971



AUTOMOTIVE HARDWARE LIMITED
and Subsidiary Companies

TO THE SHAREHOLDERS
OF AUTOMOTIVE HARDWARE LIMITED,

The semi-annual results for the first half of the 1971 fiscal year show an increase of approximately 5% in sales over the same period last year. The analysis of the per share earnings exhibits the following:

	<u>1971</u>
1st quarter	19½¢
2nd quarter	<u>26 ¢</u>
	<u>45½¢</u>

It therefore shows that the earnings for the second quarter of the current year were somewhat in excess of one-quarter of the total 1970 earnings. While the effects of higher labour and material costs and continued competitive pressure are still evident, the Company has been able substantially to overcome the impact of such effects by increased volume and price restructuring.

The working capital of the Company has continued to grow and permits the Company to expand without any requirements for public financing or borrowing. In August 1971, the Company acquired all of the outstanding shares of S. F. Bacher and Company Limited which has successfully been in the business of distribution of automobile parts and accessories for over 25 years. This acquisition will complement the lines currently carried by Docap Manufacturing Company Limited, one of the

Company's subsidiaries. Management believes that this will prove to be a significant plus factor in the per share earnings of the Company, since no additional shares were issued to acquire the shares of S. F. Bacher and Company Limited.

The continued growth in our export sales to the United States should not be too greatly affected by the recent imposition of a surcharge on U.S.A. imports from Canada. A portion of our exports to the United States is covered by the U.S.A.-Canada trade agreement (called Autopact) and is not subject to any duties or surcharge. According to information received by us, most of our remaining exports to U.S.A., will be subject to an additional surcharge estimated to be about 3% on the value of such goods shipped because the duty calculation in most cases will be on the basis of the weight of the goods, rather than value.

Our exports to other countries are continuing to grow.

The trend reflected in the results of the second quarter as related to those of the first quarter bears out the statement to you on May 28, 1971 and it is expected that this will continue for the balance of the year.

Toronto, Ontario,
August 19, 1971.

Irwin Goldhart,
President

AUTOMOTIVE HARDWARE LIMITED and Subsidiary Companies
Comparative Consolidated Statement of Earnings (Unaudited)
For the Six Months Ended June 30

	1971	1970
Sales	\$8,460,495	\$8,026,241
Cost of Goods Sold and Operating Expenses Exclusive of Items Shown Below	<u>7,166,263</u>	<u>6,563,097</u>
	\$1,294,232	\$1,463,144
Depreciation	\$276,465	\$241,986
Interest on Long Term Debt	146,023	152,774
Amortization of Debenture Discount	<u>3,000</u>	<u>3,000</u>
	425,488	397,760
Earnings Before Income Taxes	\$ 868,744	\$1,065,384
Income Taxes Payable	\$466,343	\$582,661
Income Tax Deferral Adjustment	<u>7,587</u>	<u>15,589</u>
Income Taxes Applicable to Period	458,756	567,072
Net Earnings for Period	<u>\$ 409,988</u>	<u>\$ 498,312</u>
Per Share Earnings for Period (Based on 900,000 Shares Outstanding on June 30)	<u>45½¢</u>	<u>55¢</u>

Comparative Consolidated Statement of Source and Application of Funds (Unaudited)

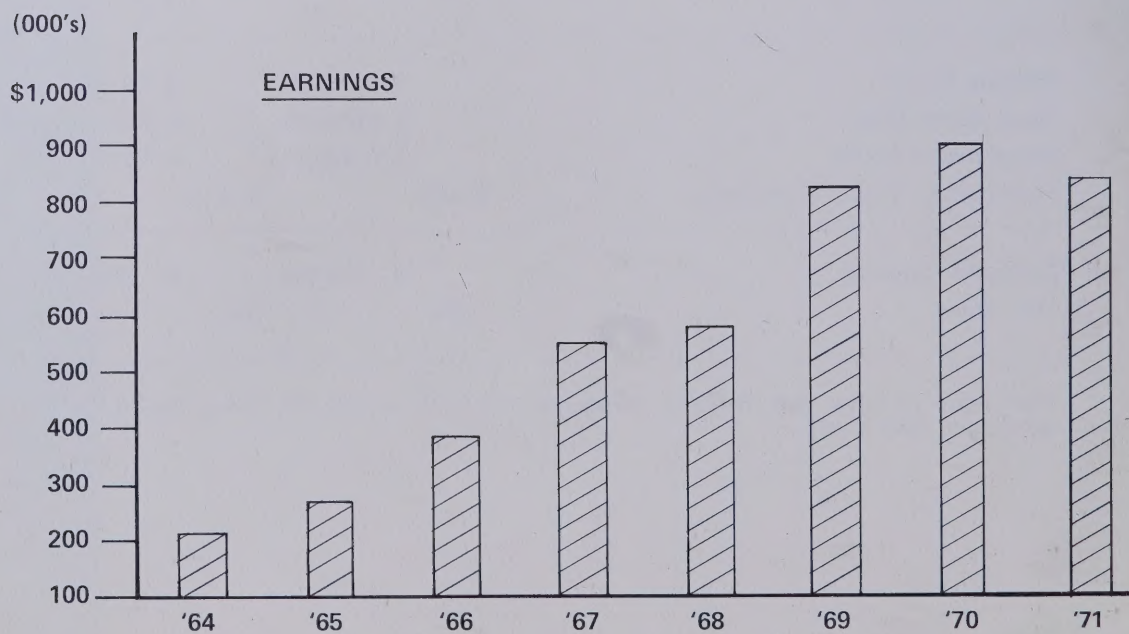
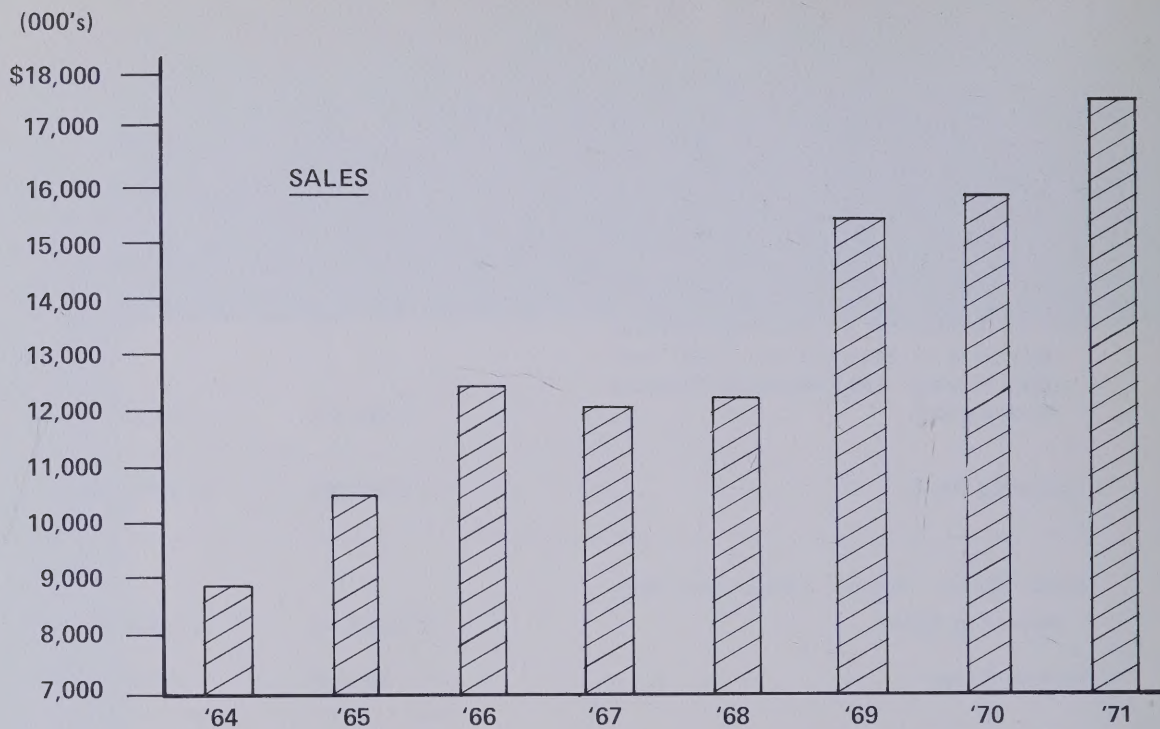
For the Six Months Ended June 30

	1971	1970
Source of Funds:		
Net Earnings	\$409,988	\$498,312
Depreciation	276,465	241,986
Amortization of Debenture Discount	<u>3,000</u>	<u>3,000</u>
	\$689,453	\$743,298
Lien Balance on New Equipment	—	195,557
Principal Repayments on Mortgage Receivable	<u>6,345</u>	<u>4,231</u>
	\$ 695,798	\$ 943,086
Application of Funds:		
Purchase of and Deposits on Fixed Assets (Net)	\$148,821	\$481,971
Reduction of Long Term Debt	214,222	131,636
Income Tax Deferral Adjustment	7,587	15,589
Dividends Declared	<u>108,000</u>	<u>54,000</u>
	478,630	683,196
Net Increase in Working Capital	\$ 217,168	\$ 259,890
Working Capital January 1	7,018,312	6,712,893
Working Capital June 30	<u>\$7,235,480</u>	<u>\$6,972,783</u>

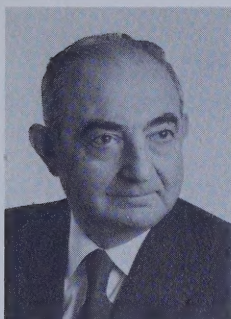
Summary of the Years' Results

	1971	1970
Sales	\$17,531,182	\$15,767,921
Cost of Goods Sold & Operating Expenses (Exclusive of Depreciation, Long Term Debt Interest, and Debenture Discount Amortization)	14,977,374	13,031,458
Operating Profit	\$ 2,553,808	\$ 2,736,463
Profit Before Income Taxes, and Non- Recurring Items	\$ 1,663,349	\$ 1,906,138
Income Taxes	839,675	1,005,070
Net Earnings Before Non-Recurring Items	\$ 823,674	\$ 901,068
Non-Recurring Profit	—	5,028
Net Earnings	\$ 823,674	\$ 906,096
*Per Share	\$.915	\$1.007
Working Capital	\$ 7,069,127	\$ 7,018,312
Fixed Assets (Net)	\$ 5,930,088	\$ 5,535,919
Shareholders' Equity	\$ 7,758,981	\$ 7,315,778
Shareholders' Equity — per share	\$ 8.62	\$ 8.13
Dividends Declared	\$ 216,000	\$ 162,000
*Per Share	24¢	18¢

*Per Share Earnings and Dividends Shown on the Basis of 900,000 Shares Being Outstanding in Both Years.



A word from the President



To the Shareholders,

The report for the year ended December 31, 1971, reflects the continuing increase in demand for the Company's products and services. It has maintained its position in the industry as evidenced by the growth in sales.

Results

Sales in 1971 reached new and higher levels—\$17,531,182 in 1971, compared to \$15,767,921 in 1970. The results are in keeping with the Company forecasts. Earnings in 1971 were somewhat less than those in 1970; this is attributable chiefly to the increased cost of labour and material coupled with strong competitive pricing. During 1971, the Company has continued to demonstrate its ability to retain its old customers at increasing sales volumes and also to attract new ones. This pattern has continued during 1972.

Financial Position

You will note that there has been a steady improvement in the equity value of the shares of the Company, the same being \$8.62 per share at the end of 1971 as compared to \$8.13 a year earlier.

The working capital of \$7,069,127 as at December 31, 1971, is indicative of the Company's strong current position.

Operations

Expansion and improvement of facilities will continue throughout 1972. Arrangements have been made for the delivery of new equipment and planning has gone forward with respect to the addition of 30,000 square feet to the Toronto plant during the current year. It is estimated that the capital outlay for these will be \$900,000.

Docap Manufacturing Company Limited, a subsidiary of the Company, has grown in its operations in the automotive replacement after-market. S. F. Bacher and Company Limited, all the shares of which were acquired by the Company in 1971, is also active in other aspects of the same after-market. With the increased lines of products handled by these subsidiaries it is expected that their operations will continue to grow and will contribute increasingly to the Company's sales and earnings.

General

With our increasing lines of goods being sold to customers and the favourable trend of business generally in 1972, it is expected that there will be improvement of the Company's results.

On behalf of the Company's Directors, I should like to extend thanks to the Company's employees for their continued loyal assistance and support and contribution to the Company's success.

May 25, 1972.

IRWIN GOLDHART,
President.

Comparative Consolidated Statement of Earnings
For The Year Ended December 31

	1971	1970
SALES.....	\$17,531,182	\$15,767,921
COST OF GOODS SOLD AND OPERATING EXPENSES EXCLUSIVE OF ITEMS SHOWN BELOW.....	14,977,374 \$ 2,553,808	13,031,458 \$ 2,736,463
DEPRECIATION (Note 2).....	\$ 591,559	\$ 518,770
INTEREST ON LONG TERM DEBT.....	292,900	305,555
AMORTIZATION OF DEBENTURE DISCOUNT.....	6,000	6,000
	\$ 890,459	\$ 830,325
EARNINGS BEFORE INCOME TAXES AND NON- RECURRING ITEMS SHOWN BELOW.....	\$ 1,663,349	\$ 1,906,138
INCOME TAXES (Note 3)	839,675	1,005,070
	\$ 823,674	\$ 901,068
PROFIT ON DISPOSAL OF MACHINERY.....	—	5,028
EARNINGS FOR THE YEAR.....	\$ 823,674	\$ 906,096
EARNINGS PER SHARE BASED ON 900,000 SHARES OUTSTANDING (Note 10).....	\$.915	\$ 1.007

Comparative Consolidated Statement of Retained Earnings
For The Year Ended December 31

BALANCE, JANUARY 1.....	\$ 4,167,206	\$ 3,423,110
Net Earnings for the Year.....	823,674	906,096
	\$ 4,990,880	\$ 4,329,206
Dividends Declared.....	216,000	162,000
BALANCE, DECEMBER 31.....	\$ 4,774,880	\$ 4,167,206

The accompanying notes form an integral part of these financial statements.

Comparative Consolidated Statement of Source and Application of Funds
For The Year Ended December 31

	1971	1970
SOURCES OF FUNDS		
Net Earnings.....	\$ 823,674	\$ 906,096
Depreciation.....	591,559	518,770
Amortization of Debenture Discount.....	6,000	6,000
FUNDS FROM OPERATIONS.....	\$ 1,421,233	\$ 1,430,866
Principal Repayments of Mortgage Receivable Received.....	11,990	9,471
Deferred Payment Contracts on New Equipment.....	377,280	506,532
Deferred Income Tax Adjustments.....	23,320	50,259
	<u>\$ 1,833,823</u>	<u>\$ 1,997,128</u>
APPLICATION OF FUNDS		
Purchase of Fixed Assets (Less Disposals).....	\$ 983,728	\$ 1,296,750
Deposits on Equipment.....		2,000
Reduction in Long Term Debt.....	418,809	230,959
Dividends Declared	216,000	162,000
Excess of Cost of Shares of Subsidiary Company Over Net Equity Acquired During Year.....	164,471	—
	<u>\$ 1,783,008</u>	<u>\$ 1,691,709</u>
NET INCREASE IN WORKING CAPITAL.....	\$ 50,815	\$ 305,419
WORKING CAPITAL JANUARY 1.....	<u>7,018,312</u>	<u>6,712,893</u>
WORKING CAPITAL DECEMBER 31.....	<u>\$ 7,069,127</u>	<u>\$ 7,018,312</u>

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED

AS AT

Assets

	1971	1970
CURRENT ASSETS		
Cash and Bank Balances.....	\$ 69,532	\$ 1,376
Accounts Receivable (Less Allowances for Doubtful Accounts).....	2,907,819	2,154,131
Inventories, at Lower of Cost or Replacement Cost.....	6,995,163	7,573,084
Marketable Securities.....	4,250	—
Sales Tax and Duty Drawback Claims Outstanding.....	192,404	118,672
Corporation Taxes Refundable.....	141,106	—
Prepaid Expenses and Deposits.....	146,959	88,198
Life Insurance, Cash Surrender Value.....	10,100	9,625
	<u>\$10,467,333</u>	<u>\$ 9,945,086</u>
MORTGAGE RECEIVABLE (7% DUE 1979).....	<u>\$ 112,708</u>	<u>\$ 124,698</u>
FIXED ASSETS (AT COST)		
Land.....	\$ 281,809	\$ 281,809
Buildings.....	2,257,953	2,249,235
Machinery and Equipment.....	7,083,968	6,169,917
Motor Vehicles.....	145,377	128,803
Leasehold Improvements.....	39,740	39,963
Dies and Small Tools.....	180,000	180,000
	<u>\$ 9,988,847</u>	<u>\$ 9,049,727</u>
Less — Accumulated Depreciation.....	4,058,759	3,513,808
	<u>\$ 5,930,088</u>	<u>\$ 5,535,919</u>
DEPOSITS ON EQUIPMENT.....	—	\$ 2,000
UNAMORTIZED DEBENTURE DISCOUNT.....	<u>\$ 105,000</u>	<u>\$ 111,000</u>
	<u>\$16,615,129</u>	<u>\$15,718,703</u>

The accompanying notes form an integral part of these financial statements.

BALANCE SHEET

MBER 31

Liabilities

	<u>1971</u>	<u>1970</u>
CURRENT LIABILITIES		
Bank Loans and Overdraft (Note 7d).....	\$ 1,301,000	\$ 631,414
Accounts Payable and Accrued Liabilities.....	1,719,603	1,906,777
Taxes Payable.....	—	149,721
Dividends Payable.....	54,000	54,000
Current Portion of Long Term Debt.....	323,603	184,862
	<u>\$ 3,398,206</u>	<u>\$ 2,926,774</u>
LONG TERM DEBT (LESS CURRENT PORTION AS ABOVE) (Note 4)	<u>\$ 4,542,462</u>	<u>\$ 4,583,991</u>
DEFERRED INCOME TAXES (Note 3).....	<u>\$ 915,480</u>	<u>\$ 892,160</u>

Shareholders' Equity

CAPITAL STOCK (Note 5a).....	\$ 1,143,030	\$ 1,143,030
CONSOLIDATED RETAINED EARNINGS.....	4,774,880	4,167,206
CONTRIBUTED SURPLUS (Note 6).....	1,841,071	2,005,542
	<u>\$ 7,758,981</u>	<u>\$ 7,315,778</u>
	<u>\$16,615,129</u>	<u>\$15,718,703</u>

Approved on behalf of the Board:

Irwin Goldhart, Director.

Goldie Potashin, Director.

Notes to Consolidated Financial Statements

1. Basis of Consolidation.

The accompanying financial statements combine the accounts of Automotive Hardware Limited and its wholly owned subsidiary companies.

All material inter-company transactions and balances on the aforementioned statements were eliminated for consolidation purposes.

The accounts of S. F. Bacher and Company Limited, a subsidiary company acquired in 1971, were consolidated, the effective date being January 1, 1971.

2. Depreciation.

Provision for depreciation on these statements was computed at the maximum rates allowed by The Income Tax Act except for Federal Bolt & Nut Corporation Limited which was computed at 7½% straight line rate for all equipment installed. Tools and dies were expensed in the year during which the related equipment was used except for \$180,000 which was capitalized in a period prior to December 31, 1963.

3. Income Taxes — Payable and Deferred.

The companies follow the tax allocation principle of providing for income taxes. Under this principle deferred income taxes are adjusted to reflect the differences between capital cost allowances claimed for tax purposes and depreciation recorded in the accounts.

4. Long Term Debt.

Equipment Contracts Payable (Secured).....	\$ 958,114
6½% Realty Mortgage Due 1986.....	907,951
6% Convertible Debenture, Series A, Due 1989.....	3,000,000
	<u>\$4,866,065</u>
Less — Amounts Due Within One Year.....	323,603
	<u><u>\$4,542,462</u></u>

6% CONVERTIBLE DEBENTURE SERIES A, DUE JULY 2, 1989.

(a) This debenture, issued July 2, 1969, is secured by a floating charge on the assets of Automotive Hardware Limited and subsidiary companies. Interest is paid semi-annually;

(b) Each debenture is convertible at the holder's option at any time up to July 2, 1979, at a conversion rate of 70 common shares per \$1,000 principal amount;

(c) In each of the years 1980 to 1988, the company is obligated to pay to the trustee, by way of a sinking fund, sums sufficient to retire on July 2 in each of such years, 10% of the aggregate principal amount outstanding on July 3, 1979.

5. (a) Capital Stock.

Authorized

4,877,600 Class A, non-cumulative, non-voting, redeemable shares with a par value of \$1.00 each;

1,000,000 Class B, participating shares without par value;

3,000,000 Common shares without par value.

Outstanding and Fully Paid:

600,000 Class B, participating shares, without par value	\$ 11,273
300,000 Common shares, without par value	1,131,757
	<u>\$1,143,030</u>

(b) During 1971, the Company paid dividends of \$216,000 in the following manner:

On 300,000 common shares at 24¢ cash	\$ 72,000
On 600,000 class B shares at 24¢	
—by an election under The Income Tax Act	\$ 21,600
—by the issue and subsequent redemption of 122,400 class A shares	122,400 144,000
	<u>\$216,000</u>

(c) Employees' Stock Option Plan.

In 1969, the Company established an employee stock option plan for a maximum of 45,000 common shares, of which options on 28,000 common shares were granted to 15 employees (of which 7,500 shares were granted to 3 directors) at \$11.28 per share. To date no options have been exercised.

(d) Conversion Privilege of 6% Convertible Debenture, Series A.

The Company has reserved 210,000 common shares to meet the conversion privilege of the holders of such debenture.

6. Contributed Surplus.

Net excess of the equity of the subsidiary companies over the cost of their acquisition by Automotive Hardware Limited as at January 1, 1971	\$2,005,542
Less — Excess of cost of subsidiary acquired in 1971 over the equity as at the effective date of acquisition	164,471
Net excess of the equity of the subsidiary companies over the cost of their acquisition as at December 31, 1971	<u>\$1,841,071</u>

7. Commitments.

(a) LEASES.

The Company is obliged to pay the following annual rentals under its leases:

1972 to 1974	\$135,179
1975	124,310
1976	100,963
1977 and 1978	82,343
1979	69,079
1980	50,510
1981	33,415
1982 to 1984	10,870
1985	4,381

(b) EQUIPMENT AND PLANT.

At December 31, 1971, the companies had commitments to purchase equipment and erect plant aggregating approximately \$900,000.

(c) PENSION PLANS.

The Company provides to its eligible employees a choice of two pension plans, into which the following payments were made during the year:

- (i) Contributory Pension Plan:
Payments by the Company, all in respect of current service — \$58,687;
- (ii) Non-Contributory Plan:
Payments by the Company in respect of current services — \$35,500;
Funding payments in respect of past service — \$15,350;
A like amount of \$15,350 is required to be paid in each of the ensuing fourteen years with respect to past services.
- (d) Bank loans were secured by a registered assignment of accounts receivable.
- (e) Letters of credit outstanding totalled \$35,244.

8. Remuneration of Directors and Senior Officers.

Direct remuneration paid to the directors and senior officers of the Company (nine in number) during the year amounted to \$256,879. In addition thereto, the Company contributed during the year the sum of \$12,417 under its employee pension plan on behalf of these directors and senior officers.

9. The Company entered into the following ten year leases with Mr. Irwin Goldhart, the president of the Company, for warehouses:

Location	Annual Rent	Expiry Date
Vancouver, British Columbia	\$31,833	1979
Dartmouth, Nova Scotia	27,248	1981

10. Earnings per Share.

The statement of earnings for 1971 includes 4¢ per share earnings for the subsidiary company acquired in 1971 with no adjustment being made for the earnings of such subsidiary company prior to the effective date of acquisition.

	1971	1970
Based on 900,000 shares issued and outstanding	\$0.915	\$1.007
Based on full potential dilution	\$0.812	\$0.880

Fully diluted earnings per share calculation shows the effect on earnings per share which would have resulted if (a) all the 6% Series A debentures had been converted into common shares on January 1, and (b) the employees' stock options for the purchase of 28,000 common shares at \$11.28 had been exercised on January 1, and that the funds derived therefrom had been invested to produce an annual return of 8%, before applicable income taxes. The income imputed, after income taxes, was \$100,458 in 1971 and \$95,634 in 1970.

Auditors' Report

To the Shareholders of
Automotive Hardware Limited:

We have examined the consolidated balance sheet of Automotive Hardware Limited and subsidiary companies as at December 31, 1971, and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971, and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
April 21, 1972.

MILLER, STONE, SAPERIA and ISAACS
Chartered Accountants.

Branch Warehouses:

Vancouver, British Columbia

Edmonton, Alberta

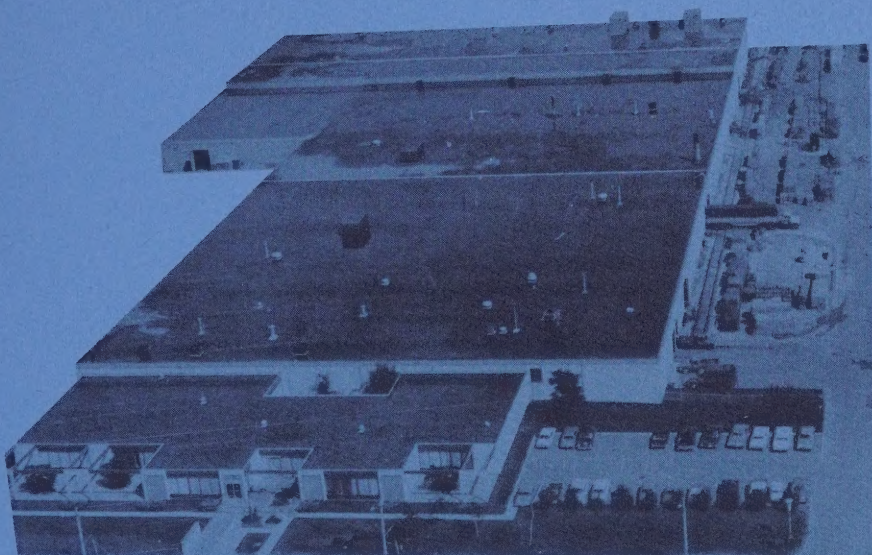
Calgary, Alberta

Winnipeg, Manitoba

Toronto, Ontario

Montreal, Quebec

Dartmouth, Nova Scotia



Head Office and Plant

55 Brown's Line, Toronto 14, Ontario

